

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7277

BILL NUMBER: HB 1479

DATE PREPARED: Jan 8, 2001

BILL AMENDED:

SUBJECT: Internal Revenue Code Update.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill updates the definition of "Internal Revenue Code" to reflect federal tax law changes in effect on January 1, 2001. The bill also adds a noncode provision to update the definition of "Internal Revenue Code" for purposes of the 2000 tax year.

Effective Date: January 1, 2000 (retroactive); January 1, 2001 (retroactive).

Explanation of State Expenditures: *2000 Internal Revenue Code Update:* A number of federal tax provisions were included in H.R. 1180 - 1999 that would affect the calculation of Indiana adjusted gross income (AGI). These provisions will have a minimal impact on revenue collections beginning in FY 2001 and beyond. Some of these provisions include the following:

- a two-year extension of the exception from subpart F foreign personal holding company income, foreign base company services income, and insurance income for certain income that is derived from the active conduct of banking, finance, or insurance;
- exclusion for employer-provided educational assistance through December 31, 2001;
- extends the duty-free treatment under the Generalized System of Preferences (GSP);
- extends the expensing of environmental remediation expenditures;
- limits long term capital gain treatment to certain income in transactions involving pass-through entities;
- prohibits the use of the installment method by accrual-method taxpayers;
- numerous changes relating to the treatment of real estate investment trusts (REITS).

2001 Internal Revenue Code Update: The Consolidated Appropriations Act of 2001 (HR 4577) contained a number of federal provisions which would also affect the calculation of Indiana AGI. These provisions would only have a minimal impact on revenue collections beginning in FY 2001. They include:

- extends the expensing of environmental remediation expenditures to 2004;

- extends medical savings accounts through 2002;
- increase in the state volume limits for private activity bonds.

Explanation of Local Expenditures:

Explanation of Local Revenues: Any effect on the calculation of Indiana adjusted gross income would also impact the calculation of local option income taxes. The impact of the federal changes is expected to be negligible.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Local units of government who receive local option income taxes.

Information Sources: Department of State Revenue; Joint Committee on Taxation.